2002

ANNUAL REPORT

Beaumont Select
CORPORATIONS

NOTICE OF ANNUAL MEETING

Beaumont's Annual Meeting of holders of common shares will be held in the Borden Ladner Gervais LLP board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 10:00 a.m., Calgary time on Wednesday, December 18, 2002.

TABLE OF CONTENTS

Corporate Directory 1

Corporate Profile 2

Report to the Shareholders 3

Management's Responsibility for Financial Statements 5

Auditors' Report to the Shareholders 5

Consolidated Balance Sheets 6

Consolidated Statements of Operations and Retained Earnings 7

Consolidated Statement of Cash Flows 8

Notes to Consolidated Financial Statements 9

Corporate Directory

DIRECTORS

Winston Ho Fatt
Andrew Hyslop
Peter Kreutzer
Peter Farkas
Bruce Dorset

TRANSFER AGENT

Computershare Trust
Company of Canada
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

HEAD OFFICE

#4, 4826 – 11 Street N.E.
Calgary, Alberta T2E 2W7
Tel: (403) 250-8757
Fax: (403) 250-8709

OFFICERS

Winston Ho Fatt
Chairman of the Board, and
Chief Executive Officer
Andrew Hyslop
Corporate Secretary

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Calgary, Alberta

STOCK SYMBOL

BMN.A

Corporate Profile

Beaumont Select Corporations Inc. is a management and investment Corporation, which has significant investments in the real estate and the food processing industries. Beaumont charges fees and interest on its investments to its subsidiary companies.

Real Estate Division

The Real Estate Division owns three industrial buildings, one in Winnipeg and the other two in Calgary, with a total area of approximately 110,000 square feet. The Corporation also owns another 15,000 square feet of office space at a location close to downtown, Calgary.

Food Processing Division

The Food Processing Division concentrates on providing high quality private label and branded products of a specialty nature in the frozen food and bakery products sectors. These products are distributed to food wholesalers and retailers in North America. The Frozen Food Unit is the largest processor of perogies and the largest private label processor of panzarottis in Canada, on a poundage basis. The Bakery Unit has fine product lines including high quality undecorated slab cakes, icings, Christmas cakes, nanaimo bars, swiss and jelly rolls, donettes, berry cups, crumbs and croutons, mini muffins and lowfat, lifestyle cakes. These products are sold to all the major chains in Western and Central Canada. Approximately 12% of the sales are made into the U.S.A. and attempts are being made to sell more into Quebec and the Maritimes. The production facilities are all located in Western Canada.

The goal of the Food Processing Division is to provide its customers with high quality, private label and branded products comparable in quality to those of national brands at lower prices and with a high level of service.

CORPORATE GOAL

The corporate goal of Beaumont Select Corporations Inc. is to increase net income and EBITDA by at least 10% on an annualized basis over a 6-year period and to enhance long-term shareholder value.

The chart below shows the progress we have made over the past six years.

6 YEAR FINANCIAL HIGHLIGHTS (in thousands of dollars except share and per share information)

	2002	2001	2000	1999	1998	1997
Sales	$ **36,602**	$ 35,026	$ 32,127	$ 30,867	$ 28,960	$ 27,866
Operating Income (Loss)	**1,081**	1,411	1,456	1,222	1,088	860
Net Income (Loss)	**83**	652	417	1,027[2]	657[3]	1,017
Funds from operations	**2,232**	3,150	3,072	2,675[2]	1,632[3]	2,116
EBITDA[1]	**2,968**	4,100	3,108	3,564[2]	2,249[3]	2,956
Total Assets	**29,679**	28,116	25,196	24,862	22,554	21,954
Shareholders' Equity	**10,921**	11,086	10,100	10,071	9,650	8,259
Shares outstanding, end of year	**18,139,473**	18,523,973	19,344,473	20,079,830	22,555,575	20,832,043
Net Income (Loss) per share - basic	**0.00**	0.04	0.02	0.05[2]	0.03[3]	0.05
Funds from operations per share - basic	**0.12**	0.17	0.16	0.12[2]	0.08[3]	0.10
EBITDA per share - basic	**0.16**	0.22	0.16	0.18[2]	0.10[3]	0.14

Note 1: Earnings before interest, taxes, depreciation and amortization.
Note 2: These figures include the final settlement of $69,549 related to the payment on a corporate guarantee provided to a German bank.
Note 3: These figures include a one-time expense related to the payment of $700,000 on a corporate guarantee provided to a German bank and a one-time recovery of deferred taxes of $571,000.

Report to Shareholders

The fiscal year ended June 30, 2002 proved to be eventful and challenging. The Corporation was unable to deliver another year of improved profitability in 2002, because of a series of one-time costs and the commitment to modernize and expand the frozen foods division as planned. The latter action will enable the Corporation to accommodate increased sales revenue and reduce operating costs for years to come.

FINANCIAL HIGHLIGHTS

The Corporation had a moderate increase in sales from $35,026,000 to $36,602,000. However, operating and net income were lower in 2002 at $1,081,000 and $83,000 respectively, in comparison with $1,411,000 and $652,000 in 2001. The net income was translated to $0.00 per share in 2002 and $0.04 per share in 2001.

Funds flow from operations were $2,232,000 and $3,150,000 in 2002 and 2001 respectively, while EBITDA was $2,968,000 in 2002 versus $4,100,000 in 2001.

The current ratio and debt to equity ratio were 1.08:1 and 1.72:1 respectively in 2002, compared to 1.22:1 and 1.45:1 in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales

Sales increased modestly from $35,026,000 in the previous year to $36,602,000. Because of production problems associated with the modernization and expansion of the frozen food plant, the normal promotional activity had to be curtailed for most of the year due to limited production capacity.

Margins

Margins continued to decline because of rising costs and customer resistance to price increases.

During the year the Corporation spent $3,252,000 modernizing and re-equipping some of the plants in order to reduce costs. In the plant in which most of the money was spent, staff positions were reduced by over 25% while increasing capacity by 30%.

Net income and funds from operations

Net income and funds from operations were lower than that of the previous year largely because of several one time, non-recurring expenses and incremental costs. Below is a list of these expenses:

Non-recurring expenses:	
1. Start up cost associated with plant modernization and capacity expansion	$ 188,000
2. Damaged goods from rainstorm in USA (insurance claim in process in USA)	187,000
3. Write-off of product damaged in shipping	122,000
Sub-total	$ 497,000
Incremental costs:	
4. Storage cost related to shutdown for plant modernization/expansion	$ 40,000
5. US Tax reassessment from prior years	49,000
6. Salary/expenses of Marketing Person for USA (now using brokers instead)	110,000
Sub-total	$ 199,000
Net income was further affected by the following non-cash items:	
7. Write-off of a business loan (in a trial food distribution venture)	$ 147,000
8. Write-off of packaging development cost of obsolete packaging	115,000
Sub-total	$ 262,000
Total expenditures affecting net income and fund from operations of this fiscal year	$ 958,000

The decline in net income and cash flow was also partly due to equipment problems associated with the plant modernization.

For the first time all operating units returned a positive cash flow.

Operations

The plant modernization and expansion encountered problems due to the late delivery of equipment and equipment not performing up to the quoted specifications. These problems were not resolved until three months before the year-end. These operations are now performing up to planned capacity and quality levels.

DIVISIONAL REPORTING

Real Estate Division

Over the years, the Corporation has seen an increase in real estate values in the areas where it owns properties. The total rentable space of the buildings is approximately 125,000 square feet, which is comprised 15,000 square feet of office space and 110,000 square feet of industrial space. All buildings are fully leased.

All the industrial buildings have a lease with affiliates at market rates, while the office building is now fully leased to third parties. Two of the three industrial buildings are in prime industrial areas in Calgary, Alberta, while the third one is in Winnipeg, Manitoba. The free cash flow from the

rental of these buildings along with other appropriate capital will be used to expand the division.

Food Processing Division

The Food Processing Division continues to grow steadily as new customers are acquired in both Canada and the United States, and as new products are successfully introduced.

The Food Processing Division continues to research new product opportunities. In addition, it will continue to expand sales of existing products to a broader geographic customer base.

CORPORATE ACTIVITY

The directors and management feel that the shares of the Corporation are trading on the market at less than their fair value and the Corporation is continuing the repurchase of shares under a normal course issuer bid. At of June 30, 2002, under its fourth normal course issuer bid, the Corporation had repurchased 384,500 shares for a cost of $248,285. Since the beginning of the share repurchase program four years ago, the Corporation has repurchased approximately 2,940,000 shares from the market, in a continued effort to improve shareholder value. In June 2002, the Corporation received approval from The Canadian Venture Exchange to acquire an additional 409,705 shares, representing approximately 2.25% of the issued and outstanding class "A" shares, through a fourth Normal Course Issuer Bid, which commenced on July 2, 2002 and will terminate on July 1, 2003.

During this fiscal year, the Corporation adopted the Treasury Stock method with respect to the calculation of "Earnings per share". Under this method, basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share are calculated following the Treasury Stock method for stock options and warrants assuming the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued (see note 1(g) of the consolidated financial statements).

SUBSEQUENT EVENTS

Subsequent to the year-end, three loans from lenders were refinanced resulting in an increase of working capital by $650,000 and a reduction of the annual repayment of principal by approximately $400,000. A fourth loan is being re-negotiated, which would provide a further $300,000 of working capital and a reduction of principal repayments by $200,000 annually.

Subsequent to the year-end, the Corporation repurchased 144,000 shares for cash consideration of approximately $94,000.

2003 OUTLOOK

Sales

Management expects sales to grow approximately 5% this year. However, several new products have been developed over the past two years, which if accepted by customers and the market place, could provide even higher sales growth over the next several years.

Margins

The Corporation is continuing to focus on reducing unit costs by further mechanization and by preparing its own mixes.

This year is expected to be a difficult year because drought and crop failures have caused raw material costs to increase very significantly. This has been the worst crop year since 1974 and is reflected in substantial increases in raw material costs, in some cases by as much as 50%. The Corporation has taken steps to reduce the impact of these input cost increases during the first six months but thereafter expects to feel the impact of these increases. Combined with improved sales during the first month of this fiscal year, it is expected that the results of the first half of the year will be better than the first half of last year and the last half will be worse than the last half of last year excluding the non-recurring expenses listed above.

Net Income and Cash Flow

Because of the uncertainty concerning margins, it is hard to predict what the Corporation will be able to achieve this year in income and cash flow. The Corporation hopes, however, to duplicate the results of fiscal year 2000/2001 at a minimum. Preliminary indications are that the cash flow for the first quarter of 2002/2003 are close to that of the same period for the 2000/2001 fiscal year. Every effort is being made to increase sales and reduce costs to improve the bottom line.

A NOTE OF THANKS

We wish to take this opportunity to thank all of our managers, supervisors and employees who, as associates, worked so hard to make this another successful year.

Winston Ho Fatt
Chairman and Chief Executive Officer

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Beaumont Select Corporations Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within the information presented in the financial statements.

KPMG LLP, Chartered Accountants, have been appointed by the shareholders of the Corporation to serve as the Corporation's external auditors, have examined the consolidated financial statements of the Corporation for the years ended June 30, 2002 and June 30, 2001.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Corporation herein.

Winston Ho Fatt
Chairman and Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Beaumont Select Corporations Inc. as at June 30, 2002 and 2001 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Calgary, Canada
September 30, 2002

Consolidated Balance Sheets

June 30, 2002 and 2001

	2002	2001
ASSETS		
Current assets:		
Cash	**$ 737,037**	$ 690,332
Marketable securities (note 2)	**4,002,460**	2,582,703
Accounts receivable	**2,469,104**	2,892,318
Inventory (note 3)	**3,030,859**	4,030,831
Prepaid expenses	**269,498**	255,225
Current portion of loans receivable (note 4)	**79,111**	79,726
	10,588,069	10,531,135
Loans receivable (note 4)	**98,000**	98,200
Future income taxes (note 10)	**94,000**	196,165
Capital assets (note 6)	**16,980,093**	15,111,501
Goodwill and other intangibles (note 7)	**1,918,578**	2,178,510
	$29,678,740	$28,115,511
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (note 8)	**$ 2,232,751**	$ 1,952,324
Accounts payable and other liabilities	**5,217,166**	5,166,371
Current portion of long-term debt (note 8)	**2,356,974**	1,703,923
	9,806,891	8,822,618
Due to related parties (note 5)	**185,163**	156,451
Long-term debt (note 8)	**8,765,664**	8,050,332
Shareholders' equity:		
Share capital (note 9)	**8,538,442**	8,719,427
Retained earnings	**2,382,580**	2.366,683
	10,921,022	11,086,110
Commitment and contingency (notes 14 and 15)		
Subsequent event (note 18)		
	$29,678,740	$28,115,511

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Winston Ho Fatt
Director

Peter Kreutzer
Director

Consolidated Statements of Operations and Retained Earnings

Years ended June 30, 2002 and 2001

	2002	2001
Revenues (notes 5 and 12)	**$36,601,885**	$35,025,969
Cost of sales:		
Direct expenses	**31,486,717**	29,749,941
Depreciation and amortization	**1,383,064**	1,393,921
	32,869,781	31,143,862
Operating margin	**3,732,104**	3,882,107
Operating expenses:		
Corporate and administrative (note 5)	**983,889**	710,905
Interest on long-term debt	**727,191**	887,951
Royalty (note 5)	**360,000**	360,000
Interest and bank charges (note 5)	**181,660**	100,012
Depreciation and amortization	**398,730**	412,719
	2,651,470	2,471,587
Operating income before the following	**1,080,634**	1,410,520
Other expenses:		
Other expenses (note 11)	**496,955**	–
Write-down of loan receivable	**147,402**	–
Write-down of intangible assets (note 7)	**114,659**	–
Foreign exchange loss	**41,657**	26,280
Loss on sale of marketable securities	**3,101**	57,880
Loss on sale of other intangible assets	**–**	20,620
	803,774	104,780
Income before income taxes	**276,860**	1,305,740
Income taxes (note 10):		
Current	**91,498**	40,801
Future income taxes	**102,165**	613,389
	193,663	654,190
Net income	**83,197**	651,550
Retained earnings, beginning of year	**2,366,683**	994,235
Change in retained earnings on future tax adoption (note 10)	**–**	809,554
Excess of consideration paid over stated value of shares redeemed (note 9)	**(67,300)**	(88,656)
Retained earnings, end of year	**$ 2,382,580**	$ 2,366,683
Net income per share (note 9):		
Basic	**$ –**	$ 0.04
Diluted	**$ –**	$ 0.03

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Net income	**$ 83,197**	$ 651,550
Add (deduct) items not requiring cash:		
Depreciation and amortization	**1,781,794**	1,806,640
Future income taxes	**102,165**	613,389
Write-down of loan receivable	**147,402**	–
Write-down of intangible assets (note 7)	**114,659**	–
Loss on sale of marketable securities	**3,101**	57,880
Loss on sale of other intangible assets	**–**	20,620
Funds from operations	**2,232,318**	3,150,079
Net change in non-cash working capital balances (note 16)	**(110,552)**	(1,202,820)
	2,121,766	1,947,259
Investing:		
Purchase of capital assets	**(3,251,656)**	(1,249,947)
Expenditures on intangibles	**(253,457)**	(518,689)
Decrease (increase) in loans receivable	**815**	(81,126)
	(3,504,298)	(1,849,762)
Financing:		
Increase in bank loans, net	**280,427**	160,143
Repurchase and cancellation of Class A common shares	**(248,285)**	(474,849)
Increase in long-term debt, net	**1,368,383**	114,426
Increase (decrease) in due to related parties	**28,712**	(76,405)
	1,429,237	(276,685)
Increase (decrease) in cash during the year	**46,705**	(179,188)
Cash, beginning of year	**690,332**	869,520
Cash, end of year	**$ 737,037**	$ 690,332
Funds from operations per share (note 9):		
Basic	**$ 0.12**	$ 0.17
Diluted	**$ 0.12**	$ 0.17

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2002 and 2001

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements include the accounts of Beaumont Select Corporations Inc. (the "Corporation") and its subsidiaries. Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

(b) Inventory:

Inventory is recorded at the lower of average cost and market, with market determined at net realizable value.

(c) Capital assets:

Capital assets are recorded at cost upon acquisition. Depreciation on capital assets is provided using principally the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Production equipment	10 to 20 years
Buildings	10 to 20 years
Leasehold improvements	10 years
Vehicles	6 to 10 years

(d) Goodwill and other intangibles:

Goodwill represents the excess of cost over the fair value of net assets acquired. Other intangibles relate to deferred financing costs associated with the refinancing of bank loans, long-term debt and deferred development costs associated with the development of new commercially viable product lines and packaging designs. Goodwill is amortized on a straight-line basis over periods ranging from ten to thirty years. Other intangibles relating to deferred development costs are amortized on a straight-line basis over periods ranging from five to ten years and deferred financing costs are amortized over the term of the corresponding debt facility. Management periodically reviews the valuation and amortization of goodwill and other intangibles, taking into consideration the nature of the industry and the circumstances, which might impair the value. The amount of impairment, if any, is determined based on estimated future cash flows. Any impairment in the value of the goodwill or other intangibles is charged in the period when impairment is determined.

(e) Foreign currency translation:

Integrated foreign operations have been translated into Canadian dollars using the temporal method as follows:

Monetary items – exchange rates in effect at the balance sheet date;

Non-monetary items – exchange rates in effect on the dates of those transactions; and

Revenues and expenses – at the average exchange rate prevailing during the year; except for inventories, depreciation and amortization which are translated at prevailing rates when the respective assets were acquired.

(f) Marketable securities:

Marketable securities are stated at the lower of cost and market value.

(g) Per share amounts:

Effective July 1, 2001, the Corporation adopted the treasury stock method with respect to the calculation of per share amounts. Under this method, basic net income and funds from operations per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted net income and funds from operations per share are calculated following the treasury stock method for stock options and warrants assuming the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Comparative figures have been restated to conform to this new method which resulted in an increase in diluted funds from operations per share from the previously reported $0.16 per share to $0.17 per share for the year ended June 30, 2001.

(h) Income taxes:

The Corporation follows the liability method of accounting for income taxes (see note 10). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

(i) Stock based compensation plans:

Consideration paid by employees or directors on the exercise of stock option plans under the employee stock option plan is recorded as share capital.

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimate relates to determining the cost recoverability of the Corporation's goodwill and other intangible assets which are principally based upon estimated future cash flows. Actual results could differ from those estimates.

2. MARKETABLE SECURITIES::

At June 30, 2002, the Corporation held marketable securities with a net book value totaling $4,002,460 (June 30, 2001 – $2,582,703) and had a margin account totaling $1,552,730 (June 30, 2001 – $923,094), which is included within accounts payable. In prior years, the consolidated financial statements had reflected the marketable securities net of the deficiency in the margin account. During the year ended June 30, 2002 the Corporation retroactively changed its presentation to record marketable securities at their total carrying value and include the deficit in margin account in accounts payable and other liabilities.The fair value of the Corporation's marketable securities as at June 30, 2002 was approximately $4,074,000 (2001 – $2,583,000).

3. INVENTORY:

	2002	2001
Raw materials	$ 1,578,274	$ 2,110,720
Finished goods	1,452,585	1,920,111
	$ 3,030,859	$ 4,030,831

4. LOANS RECEIVABLE:

	2002	2001
Loans receivable, bearing interest at rates varying from non-interest bearing to 10% per annum, with $70,000 secured by a second charge on all of the assets of the debtor and the remaining balance unsecured and with varying repayment terms	$177,111	$177,926
Less current portion	79,111	79,726
	$ 98,000	$ 98,200

5. RELATED PARTY TRANSACTIONS:

(a) Due to related parties:

	2002	2001
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually and payable on a monthly basis, with the principal portion repayable in full on July 1, 2007 (see note 18). The debenture is convertible at any time up to maturity, at the option of the holder, into 166,667 Class A common shares	$100,000	$100,000
Promissory notes due to shareholders of the Corporation, bearing interest at 10% to 12% per annum, unsecured and with no fixed terms of repayment	85,163	56,451
	$185,163	$ 156,45

(b) Other related party transactions are as follows:

	2002	2001
(i) Royalty charged by a company in which the chairman of the Corporation is the president but not a shareholder	$360,000	$ 360,000
(ii) Management fees charged by shareholders of the Corporation included in corporate and administrative expenses	$653,000	$ 645,000
(iii) Interest revenue on amounts due from an officer and shareholder of the Corporation included in revenues	$ –	$ 9,000
(iv) Interest expense on amounts due to shareholders of the Corporation	$ 13,000	$ 10,000
(v) Consulting fee paid to a shareholder and former officer of the Corporation included in corporate and administrative expenses	$ 42,900	$ –

(b) Other related party transactions are as follows (continued):

	2002	2001
(vi) In June 2002, the Corporation entered into an agreement with an officer of the Corporation whereby the Corporation loaned the officer $100,000, payable on demand and bearing interest at an annual rate of 5% per annum. Under the terms of the agreement, the officer transferred certain specific marketable securities with a fair market value of $100,000 on the date of transfer to the Corporation. Upon settlement of the loan, these same securities will be transferred back to the officer who will then be required to repay the $100,000 loan	$100,000	$ –

6. CAPITAL ASSETS:

2002	Cost	Accumulated depreciation	Net book value
Production equipment	**$22,493,817**	**$10,636,099**	**$11,857,718**
Buildings	**4,168,590**	**1,443,186**	**2,725,404**
Leasehold improvements	**2,198,003**	**1,027,940**	**1,170,063**
Vehicles	**781,320**	**619,412**	**161,908**
Land	**1,065,000**	**–**	**1,065,000**
	$30,706,730	**$13,726,637**	**$16,980,093**
2001			
Production equipment	$ 19,839,439	$ 9,513,315	$ 10,326,124
Buildings	4,168,590	1,381,262	2,787,328
Leasehold improvements	1,674,894	846,260	828,634
Vehicles	707,151	602,736	104,415
Land	1,065,000	–	1,065,000
	$ 27,455,074	$ 12,343,573	$ 15,111,501

7. GOODWILL AND OTHER INTANGIBLES:

2002	Cost	Accumulated amortization	Net book value
Goodwill	**$1,783,457**	**$ 857,833**	**$ 925,624**
Deferred development costs	**2,049,107**	**1,147,158**	**901,949**
Deferred finance costs	**279,662**	**188,657**	**91,005**
	$4,112,226	**$2,193,648**	**$1,918,578**
2001			
Goodwill	$1,783,457	$ 691,256	$ 1,092,201
Deferred development costs	1,862,275	864,457	997,818
Deferred finance costs	215,710	127,219	88,491
	$ 3,861,442	$ 1,682,932	$ 2,178,510

As at June 30, 2002, the Corporation recorded a write-down totaling $114,659 (2001 – $nil) as a result of a permanent impairment.

8. BANK LOANS AND LONG-TERM DEBT:

(a) Bank loans:

The bank loans are revolving lines of credit, repayable on demand, bearing interest at rates ranging from the bank's prime rate plus 1/2% to the bank's prime rate plus 1 1/4% per annum and are secured under various general security agreements covering, all present and after-acquired property of the Corporation, an assignment of life insurance on an officer and shareholder of the Corporation, a general assignment of accounts receivable and inventory, personal guarantees from an officer and shareholder of the Corporation and a postponement of claim by the Corporation.

(b) Long-term debt:

	2002	2001
Term demand loans, repayable in monthly principal instalments of approximately $147,000 plus interest ranging from prime plus 1% to prime plus 2% per annum and to lenders' cost of funds plus 2 1/4% to 2 3/4% per annum and secured as described above	**$7,106,672**	$5,638,283
Mortgages, repayable in monthly instalments of principal and interest of approximately $22,000, bearing interest at rates ranging from the lenders' cost of funds less 1/2% to the lenders' cost of funds plus 2 3/4% per annum	**3,507,436**	3,724,175
Notes payable of U.S. $150,000, non-interest bearing, unsecured, to be repaid in full by June 30, 2003	**235,057**	228,658
Capital leases, due 2002 through 2007, payable monthly, with interest rates ranging from 8% to 12% per annum and secured by certain equipment with a net book value at June 30, 2002 totaling $313,000 (2001 – $209,759)	**273,473**	163,139
	11,122,638	9,754,255
Less current portion	**2,356,974**	1,703,923
	$8,765,664	$8,050,332

Except as specifically disclosed, the Corporation has pledged as security for the various mortgages and loans, all of the assets of the Corporation.

The Corporation is required to make the following future principal payments as follows:

	Long-term debt	Capital leases	Total
2003	$ 2,265,666	$ 91,308	$ 2,356,974
2004	2,526,194	85,131	2,611,325
2005	1,970,446	63,179	2,033,625
2006	1,246,108	23,256	1,269,364
2007	597,597	10,599	608,196
Thereafter	2,243,154	–	2,243,154
	$ 10,849,165	$ 273,473	$11,122,638

9. SHARE CAPITAL:

(a) Authorized:

(i) Unlimited Class A voting common shares; and

(ii) 100,000,000 non-voting Class B shares, Series 2.

(b) Class A common shares issued:

	2002		2001	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**18,523,973**	**$ 9,391,978**	19,344,473	$ 9,778,171
Redemption of shares	**(384,500)**	**(180,985)**	(820,500)	(386,193)
Balance, end of year	**18,139,473**	**9,210,993**	18,523,973	9,391,978
Less cumulative issue costs		**(672,551)**		(672,551)
	18,139,473	**$ 8,538,442**	18,523,973	$ 8,719,427

During the year ended June 30, 2002 the Corporation acquired 384,500 (2001 – 820,500) Class A common shares for consideration consisting of cash proceeds totaling $248,285 (2001 – $474,849). As the consideration rendered was in excess of the stated value of the shares, the amount in excess totaling $67,300 (2001 – $88,656) was recorded as a reduction of retained earnings.

(c) Stock options:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase Class A common shares of the Corporation. As at June 30, 2002 options have been granted to purchase 858,724 (2001 – 953,724) Class A common shares at prices ranging from $0.42 to $0.53 until expiry on dates ranging from September 8, 2002 to October 30, 2005. All options vest on issuance and have a term of five years to expiry.

	2002		2001	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding options, beginning of year	**953,724**	**$ 0.50**	598,724	$ 0.48
Granted	**–**	**–**	400,000	0.53
Exercised	**–**	**–**	–	–
Expired / cancelled	**(95,000)**	**0.54**	(45,000)	0.44
Outstanding options, end of year	**858,724**	**$ 0.50**	953,724	$ 0.50
Options exercisable, end of year	**858,724**	**$ 0.50**	953,724	$ 0.50

Options Range of Exercise Price	Outstanding June 30, 2002	Weighted average remaining contractual life	Exercisable June 30, 2002	Weighted average exercise price
$0.42 to 0.49	135,000	0.17 years	135,000	$ 0.42
0.50 to 0.53	723,724	2.79 years	723,724	$ 0.52
$0.42 to 0.53	858,724	2.38 years	858,724	$ 0.50

(d) Per share amounts:

The weighted average number of Class A common shares outstanding during the year ended June 30, 2002 was 18,316,140 (year ended June 30, 2001 – 18,598,076). The dilutive effective of options for the year ended June 30, 2002 was 205,449 (year ended June 30, 2001 – 159,454). There would have been no change in diluted net income and funds from operations per share if the imputed earnings method had been used for the year ended June 30, 2002.

10. INCOME TAXES:

Effective July 1, 2000, the asset and liability method of accounting for income taxes was retroactively adopted without restatement of the prior years' financial statements. As a result, the Corporation recorded a future tax asset and a corresponding increase in retained earnings of $809,554.

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 37.5% (2001 – 42.6%) to income before income taxes and other items. The reasons for the difference are as follows:

	2002	2001
Computed expected tax provision	$ 103,823	$ 556,245
Add the following:		
Impact of change in federal and provincial tax rates	31,228	–
Large corporations and capital taxes	91,498	40,801
Benefit for reduction in valuation allowance	(33,466)	–
Non-deductible portion of capital losses	580	15,700
Recognized benefit of losses	–	40,396
Non-deductible expenses	–	1,048
Total income taxes, as reported	$ 193,663	$ 654,190

The components of the net future income tax asset at June 30, 2002 and 2001 are as follows:

	2002	2001
Future income tax assets:		
Non-capital losses	$1,229,628	$1,842,705
Net capital losses	660,360	784,696
	1,889,988	2,627,401
Future income tax liabilities:		
Goodwill and other intangible	(480,233)	(663,914)
Capital assets	(457,364)	(784,696)
	952,391	1,178,791
Valuation allowance	(858,391)	(982,626)
Net future income tax asset	$ 94,000	$ 196,165

At June 30, 2002 the Corporation had cumulative income tax deductions totaling approximately ensure $20,187,000, including reported non-capital losses for income tax purposes of approximately $2,919,000, which expire in the years 2003 to 2008.

Corporate tax returns are subject to assessment by taxation authorities in the normal course of business. The results of any assessments will be accounted for as a charge to earnings in the year in which they occur.

11. OTHER EXPENSES:

During the year ended June 30, 2002 the Corporation incurred expenses totaling $496,955 relating to the following:

Damaged inventory due to equipment failure	$ 309,220
Start-up costs relating to the modernization and expansion of production lines	187,735
	$ 496,955

12. SEGMENTED INFORMATION:

Reportable segments are identified on the basis of internal reporting to senior management. The Corporation operates primarily through two operating groups being: 1) food processing and distribution; and 2) real estate and rental properties. All operations are located in Canada.

Inter-segment eliminations relate to revenues between segments recorded at transfer prices based on current market prices. Operating margin represents total revenues less cost of sales, including depreciation. Operating expenses are comprised of interest, corporate, royalty, amortization and administrative charges. Identifiable assets by industry segment are the assets specifically attributable to those operations.

The following is an analysis of certain consolidated financial information by segment for the years ended June 30:

	2002	2001
Revenues:(1)		
Food processing and distribution	$ 36,384,839	$34,940,175
Real estate and rental properties	847,046	711,794
Inter-segment transactions	(630,000)	(626,000)
	$ 36,601,885	$35,025,969
Income before income taxes:		
Food processing and distribution	$ 644,715	$ 1,909,575
Real estate and rental properties	171,764	(243,059)
Inter-segment transactions	(539,619)	(360,776)
	$ 276,860	$ 1,305,740

(1) During the year ended June 30, 2002, approximately 11.4% (2001 – 11.4%) of total sales was made to customers located in the United States. In addition, approximately 40% of the Corporation's sales were made to seven business entities.

Capital assets:

2002	Food processing and distribution	Real estate and rental properties	Total
Production equipment	$11,484,620	$ 373,098	$11,857,718
Buildings	–	2,725,404	2,725,404
Leasehold improvements	1,150,654	19,409	1,170,063
Vehicles	161,908	–	161,908
Land	–	1,065,000	1,065,000
	$12,797,182	$ 4,182,911	$16,980,093

12. SEGMENTED INFORMATION (CONTINUED):

2001	Food processing and distribution	Real estate and rental properties	Total
Production equipment	$ 9,931,707	$ 394,417	$ 10,326,124
Buildings	–	2,787,328	2,787,328
Leasehold improvements	807,068	21,566	828,634
Vehicles	104,415	–	104,415
Land	–	1,065,000	1,065,000
	$ 10,843,190	$ 4,268,311	$ 15,111,501

Expenditures on capital assets and other intangibles and depreciation and amortization:

	2002		2001	
	Expenditures on capital assets and other intangibles	**Depreciation and amortization**	Expenditures on capital assets and other intangibles	Depreciation and amortization
Food processing and distribution	**$3,505,113**	**$1,578,879**	$1,558,913	$1,432,224
Real estate and rental properties	**–**	**202,915**	209,723	374,416
	$3,505,113	**$1,781,794**	$1,768,636	$1,806,640

Total identifiable assets:

	2002	2001
Food processing and distribution(1)	**$25,642,102**	$ 23,988,188
Real estate and rental properties	**4,036,638**	4,127,323
	$29,678,740	$ 28,115,511

(1) Includes marketable securities.

13. FINANCIAL INSTRUMENTS:

(a) Fair values:

As at June 30, 2002 and 2001, the fair values of the Corporation's related party balances were considered undeterminable due to the inability to apply a valuation method or obtain market prices. The fair values of all other monetary assets, other than marketable securities (see note 2), and liabilities approximated their carrying values.

(b) Credit risk:

Credit risk arises from the possibility that the entities to which the Corporation provides services may experience difficulty and be unable to fulfill their obligations. The Corporation is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

14. COMMITMENT:

The Corporation has a royalty agreement with a company in which the chairman of the Corporation is the president but not a shareholder. The royalty agreement extends to June 30, 2004 and results in the Corporation having to pay an annual obligation equal to the lesser of:

(i) $360,000; or

(ii) 18% of the gross sales of Dan Dan's Food Products (1994) Ltd. (a wholly-owned subsidiary of the Corporation).

15. CONTINGENCY:

A secured creditor of Sparrow Electric Corporation ("Sparrow"), a former subsidiary, has successfully appealed a court decision wherein Canada Customs and Revenue Agency ("CCRA") claimed priority over this creditor with respect to amounts owed by Sparrow regarding unpaid statutory deductions. CCRA may have a potential claim of up to $925,000 against the directors of Sparrow. While the Corporation has a policy of indemnification for the directors of Sparrow, there is uncertainty as to whether the indemnification would be applicable in this circumstance. In addition, the Corporation has been advised by its legal counsel that on the basis of the facts presently known with respect to CCRA's claim, the Corporation would have a good defense to an indemnification claim. As a result, no amount has been accrued as a liability and expense within these consolidated financial statements. In the event that CCRA successfully brings a claim against the directors of Sparrow and the Corporation is found liable in a court of law for this claim as a result of the director indemnification, the resulting settlement will be accounted for as a charge to net income in the period in which the settlement occurs.

16. SUPPLEMENTAL CASH FLOW DISCLOSURE:

(a) Changes in non-cash working capital:

	2002	2001
Marketable securities	**$ (1,422,858)**	$ (568,934)
Accounts receivable	**275,812**	(203,707)
Inventory	**999,972**	(1,125,483)
Prepaid expenses	**(14,273)**	(116,770)
Accounts payable and other liabilities	**50,795**	812,074
	$ (110,552)	$ (1,202,820)

(b) Cash payments:

The following approximate cash payments were made:

	2002	2001
Interest	**$ 889,000**	$ 967,000
Taxes	**$ 42,000**	$ 16,000

17. PENDING ACCOUNTING CHANGES:

(a) Goodwill and other intangibles:

The Canadian Institute of Chartered Accountants has recently issued a new standard relating to goodwill and other intangible assets. This new standard requires that goodwill and other intangible assets be tested for impairment on an annual basis. An impairment loss should be recognized when the carrying amounts of any goodwill and other intangible assets exceeds their fair value. The fair value of goodwill and other intangible assets is determined in the same manner as it would be determined in a business combination. The Corporation is required to adopt this new standard on July 1, 2002. The Corporation has not yet determined the impact of the adoption of this standard on the financial position of the Corporation.

(b) Callable debt obligations:

The Canadian Institute of Chartered Accountants has recently issued new standards relating to balance sheet classification of callable debt obligations and debt obligations to be refinanced. This new standard requires that debt, where the creditor/lender has a unilateral right to demand repayment within one year, must be classified as a current liability unless the creditor unconditionally waives the right to demand repayment until the next fiscal year; or the obligation will be refinanced on a long-term basis and certain conditions are met. It is estimated that approximately $815,000 of debt that is currently classified as long-term would be classified as a current liability, effective July 1, 2002, subject to ongoing renegotiations with the lenders.

(c) Stock based compensation:

Effective July 1, 2002, the Corporation will be required to adopt new Canadian accounting standards relating to stock based compensation and other stock based payments. The new standard is to be applied prospectively for stock based payments to non-employees and to employee awards that are direct awards of stock. For future awards, the Corporation will be required to follow the fair value method, as prescribed in the standard and calculate a fair value of the stock granted and record that fair value as an expense over the term of the grant.

The new standard, however, permits the Corporation to continue the present policy that no expense is recorded on the grant of the stock options to employees. The Corporation does not expect the adoption of the new standard to have a material impact on the Corporation's financial condition or results of operations.

18. SUBSEQUENT EVENTS:

Subsequent to June 30, 2002, the convertible debenture of $100,000 (note 5(a)) due to a shareholder and former officer of the Corporation has been renewed and extended to July 1, 2007 with the same terms and conditions.

On July 29, 2002 the Corporation renegotiated a mortgage by way of a formal assumption agreement and supported by a $733,000 second mortgage on a building. The revised facility has a full term of ten years with a new repayment schedule and bears interest at the bank's floating base rate plus 2.5% per annum.

The Corporation also negotiated a new long-term debt facility to a maximum totaling $2,900,000. The new facility bears interest at the bank's floating base rate plus 1/2% per annum, is secured by certain assets of the Corporation, and is repayable in monthly instalments of principal and interest with the first installment due February 23, 2003 for $32,500 and subsequent monthly instalments of $38,750 with the final payment due on April 23, 2009.

Subsequent to June 30, 2002, the Corporation repurchased 144,000 common shares for cash consideration totaling approximately $94,000.

Notes

BEAUMONT SELECT CORPORATIONS INC.